

INSTITUTIONAL AND SPATIAL EFFECTS ON MANUFACTURING PERFORMANCE IN CENTRAL JAVA PROVINCE: THE NEW INSTITUTIONAL ECONOMICS AND THE NEW ECONOMIC GEOGRAPHY PERSPECTIVE

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ABSTRACT

In the economic view, the manufacturing sector is important in relationship to its role in economic growth and the whole economy. This empirical work examines why manufacturing disparity exists, and what institutional and spatial factors empirically have an important effect on the manufacturing sector development in Central Java Province, Indonesia. The variables that are identified that have an influence on the manufacturing performance are ethno linguistic, legal rules, bureaucratic financial performance, democracy, city fascination, regional location index, the manufacturing base, infrastructure, the labor force, the intermediary finance institution and the types of regional administration (regency and city). To analyze it, this research uses the spatial econometric method on its methodological analyses. It is used to reduce the potential problem that arose in the cross section and panel data which had spatial interaction, and spatial structure. This empirical work shows that all of the institutional variables have positive and significant effects on the dependent variable. The other result is that every spatial variable also tends to have a positive and significant impact on manufacturing development. For economic policy, labor activity, the roles of financial intermediaries and infrastructure variables also have a positive effect on the manufacturing development.

Keywords: *manufacturing disparity, spatial econometrics, institutional, ethno linguistic, regional location index*